

Santa Clara



City of Santa Clara, California



**DATE:** November 10, 2008  
**TO:** City Manager for Council Action  
**FROM:** Director of Finance  
**SUBJECT:** Fiscal Year 2007-08 Transfer to General Contingency Reserves for Working Capital (Emergency Reserve) and Capital Projects

**SUMMARY:**

Since the passage of Proposition 4 in 1979 (Prop. 4), the City has had a policy of transferring into the General Contingency Reserves account the cash balances resulting from any General Fund operating surplus in a fiscal year. In accordance with Prop. 4, moneys transferred by local government agencies into a general contingency reserve are excluded from the expenditure limitation. For recent years, the City has been able to augment the General Contingency Reserve for Working Capital (Emergency Reserve) and General Contingency Reserve for Capital Projects with General Fund operating results, after several years of using the reserves to help balance the budget.

As part of the FY2007-08 budget process, Council adopted a six-point strategy for balancing the General Fund Budget and replenishing the General Contingency Reserves including specific allocations to the various reserves in the event of available resources from General Fund Operations. Three of these strategies are addressed in this agenda memo:

1. If funds are available, set aside \$3.0 million per year for the next five years to the General Contingency Reserve for Working Capital (Emergency Reserve).
2. Reallocate interest earnings on the General Contingency Reserve for Land Sales to the Working Capital (Emergency Reserve) when not needed to balance the General Fund.
3. If excess funds are available above the level of \$3.0 million, deposit the remaining excess funds in the General Contingency Reserve for Capital Projects.

The FY2007-08 year-end work on the City's books has been completed and the annual external audit is nearly completed. As a result of stronger revenues and significant efforts by the General Fund departments to keep expenditures below budget, resources are available for transfer to the various reserves as follows:

- \$3.0 million to the General Contingency Reserve for Working Capital (Emergency Reserve)
- \$750 thousand to the General Contingency Reserve for Working Capital (Emergency Reserve) from interest earnings on the General Contingency Reserve for Land Sales
- \$4.1 million to the General Contingency Reserve for Capital Projects

The additions to the Emergency and Capital Project Reserves are timely, given the recent economic news in September - October, 2008. The economy in 2008-09 has changed significantly from that of last fiscal year, 2007-08. Additional information will be presented to the City Council in the months ahead.

**ADVANTAGES/DISADVANTAGES:**

The transfer to the City's General Contingency Reserves for Working Capital and Capital Projects increases the cash designated for future City needs in times of emergency and/or financial recession and for needed capital improvements that can be appropriated by Council in the future. This action also conforms to an approved policy and stated priority of City Council: the replenishment of the City's General Contingency Reserves.

DATE: October 27, 2008  
TO: City Manager for Council Action  
FROM: Director of Finance  
SUBJECT: Fiscal Year 2007-08 Transfer to General Contingency Fund Reserves for Working Capital (Emergency Reserve) and Capital Projects  
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**ECONOMIC/FISCAL IMPACT:**

There is sufficient General Fund operating cash (001-12010) to transfer \$3.75 million to the General Contingency Fund Reserve for Working Capital (Emergency Reserve) and \$4.1 million to the General Contingency Fund Reserves for Capital Projects. This is a designation of cash and involves no expenditure appropriations.

Interest earnings on these moneys are revenues to the General Operating Fund.

By this action, the reserve levels are as follows:

- Working Capital (Emergency) Reserve at June 30, 2008 is \$21.1 million, which represents 14.2% of the General Fund, or approximately half of what is required by policy. (The policy is for a Working Capital (Emergency) Reserve of 25% of the General Fund adopted budget, or \$37.1 million.) The balance includes a transfer of \$800 thousand to fund internal service funds.
- Capital Projects reserve at June 30, 2008 was \$10.0 million. After the approved FY2008-09 transfers out of \$7.5 million to fund capital projects and \$800 thousand to fund internal service funds, and transfers in of \$1.8 million from closed projects, the July 1, 2008 balance in the Capital Projects Reserve is \$4.3 million.

**RECOMMENDATION:**

That the City Council approve a transfer effective June 30, 2008 of \$3,750,871 to the General Contingency Reserve for Working Capital (Emergency Reserves) (063-44421) and \$4,076,617 to the General Contingency Reserve for Capital Projects (063-44422) from General Fund Operating Cash (001-12010).

Certified as to availability of funds:  
001-12010 \$7,827,488.00

on  
file



Mary Ann Parrot  
Director of Finance



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Director of Finance

**APPROVED BY:**



Jennifer Sparacino  
City Manager

THE COUNCIL VOTES